CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 23, 2001

Affordable Education Act of 2001

As ordered reported by the Senate Committee on Finance on March 13, 2001

SUMMARY

The Affordable Education Act of 2001 would make a number of changes in the tax code related to the financing of educational expenses. The Joint Committee on Taxation (JCT) estimates that these provisions would reduce revenues by about $1.1 billion in 2002, by about $9 billion over the 2002-2006 period, and by $24.8 billion over the 2002-2011 period. Since the bill would affect receipts, pay-as-you-go procedures would apply. The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

MAJOR PROVISIONS

The Affordable Education Act of 2001 would redesignate educational individual retirement accounts (IRAs) as Coverdell Education Savings Accounts, increase the limit on annual contributions to the accounts from $500 to $2,000, expand the accounts to apply to elementary and secondary education, allow contributions for a taxable year to be made by April 15 of the following year, and repeal the 10 percent excise tax on certain contributions. The bill also would expand the ability of married taxpayers filing joint returns to contribute to education savings accounts. The bill would increase the ranges of income for which the contribution limits are phased out, from $150,000 to $160,000 of modified adjusted gross income (AGI), to twice that of single taxpayers, or $190,000 to $220,000 of modified AGI. These and the other provisions of the bill would become effective on January 1, 2002, unless otherwise noted.

The bill also would expand the definition of qualified state tuition programs to include prepaid tuition plans established and maintained by certain educational institutions, including private institutions. Furthermore, beneficiaries would be allowed to exclude from taxable income all distributions from such prepaid tuition programs at private institutions starting in 2004, and distributions from all state plans starting in 2002.

The Affordable Education Act of 2001 also would expand the ability of taxpayers to deduct interest paid on their student loans. The bill would increase the ranges of income for which the deduction claimed by taxpayers is phased out ratably. The phase-out range for taxpayers filing singly would change from between $40,000 and $50,000 to between $50,000 and $60,000, and the phase-out range for married taxpayers filing joint returns would change from between $60,000 and $70,000 to between $100,000 and $130,000. The phase-out ranges would be indexed for inflation after 2002. In addition, the bill would repeal the limit of 60 months during which a taxpayer can deduct such interest payments.

The bill would make various other changes to tax incentives for education. The bill would extend the exclusion from gross income for employer-provided educational assistance to include graduate education, and would make that exclusion permanent for both undergraduate and graduate education. The bill would allow certain education awards to be excluded from gross income. The bill also would increase the amount of bonds for public schools that small governmental units may issue without being subject to the requirements for arbitrage rebate and would allow governments to issue a limited amount of tax-exempt bonds for certain privately-owned public school facilities. The bill would allow taxpayers to claim HOPE or Lifetime Learning credits if the distribution from education savings accounts or from qualified tuition programs is not used for the same expenses for which those credits were claimed.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the Affordable Education Act of 2001 is shown in the following table. All estimates were provided by JCT.

	By Fiscal Year, in Millions of Dollars				
	2002	2003	2004	2005	2006
CHANGES IN REVENUES					
Estimated Revenues	-1,066	-1,615	-1,856	-2,092	-2,343

SOURCE: Joint Committee on Taxation

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up procedures for legislation affecting receipts or direct spending. The net changes in governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in receipts	-1,066	-1,615	-1,856	-2,092	-2,343	-2,610	-2,883	-3,169	-3,447	-3,762
Changes in outlays	Not applicable									

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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